



GRANADA SANITARY DISTRICT

Basic Financial Statements and Supplemental Information

Years Ended June 30, 2008 and 2007 (Restated)

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Years Ended June 30, 2008 and 2007 (Restated)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Granada Sanitary District
El Granada, California

We have audited the accompanying basic financial statements of Granada Sanitary District as of and for the years ended June 30, 2008 and 2007 (restated), as listed in the table of contents. These basic financial statements are the responsibility of the Granada Sanitary District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Granada Sanitary District as of June 30, 2008 and 2007 (restated), and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's office and state regulations governing special districts.

As discussed in Note 5 to the basic financial statements, certain errors resulting in the overstatement of assets and net assets previously reported as of June 30, 2007, were discovered by management. Accordingly, an adjustment has been made to assets and net assets as of June 30, 2007 to correct the error.

The accompanying management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements taken as a whole. The information included in Schedules I to II is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carlsbad, California
February 13, 2009

GRANADA SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

This section of the Granada Sanitary District's (District) annual report presents management's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the District's financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management discussion and analysis report, the independent auditors' report, and the basic financial statements of the District. The basic financial statements also include notes that explain in more detail some of the information in the financial statements.

BASIC FINANCIAL STATEMENTS

The District's financial statements include the statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and the statements of fiduciary net assets. These statements are prepared in a manner similar to commercial enterprises. The purpose of the statement of net assets is to report all assets and liabilities of the District as of the date of the statement. The difference between the assets and liabilities is net assets, which represents the portion of total assets not encumbered by debt. Assets and liabilities are reported at historical purchase cost, except for investments, which are reported at fair market value in accordance with accounting pronouncements. Long-term infrastructure assets such as pump stations and sewer lines are reduced by depreciation based upon the expected remaining life of the underlying asset. The District records assets on its books when it takes ownership and liabilities when it incurs the obligation to pay, whether or not it has actually been billed.

Proprietary Funds

The District uses an Enterprise Fund to account for its sewer service. The proprietary fund financial statements include statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows. These statements are accounted for on an economic resources measurement focus using the accrual basis of accounting similar to commercial enterprises.

Sewer service is provided through the service area of the District, except for the area designated as rural north of the urban/rural boundary. The basic unit of charge used to calculate sewer service and connection fees is called an Equivalent Residential Unit (ERU), which equates to an estimated 221 gallons per day of wastewater flow. All single family homes are charged 1 ERU as their sewer service charge. Commercial properties are charged a sewer service fee based upon a formula which takes into account their water usage for the year, as well as a strength of wastewater component. The charge per ERU for FY 2007/08 was \$314, which is unchanged from the prior year. Sewer service charges are used to fund the ongoing operations of the District, including administrative, operations, treatment, and collections, and depreciation set aside costs.

Fiduciary Funds

The District uses an Agency Fund to account for resources held for the benefit of parties outside the government. Statements of fiduciary net assets are included in the District's basic financial statements and are accounted for on an economic resources measurement focus using the accrual basis of accounting.

The Assessment District was formed and funded in 1996 for the purpose of providing the District's share of funds for the expansion of the Sewer Authority Midcoastside (SAM) Wastewater Treatment Plant. It was created under the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915 in combination with the Integrated Financing District Act. A total of \$8.1 million dollars in bonds were originally issued, backed by an assessment on 1,618 parcels. The bonds were refinanced in 2003 at a lower interest rate. Due to the pay-down of principal and pre-payments from some assessed parcels, \$6.1 million dollars in bonds were issued backed by assessments on 1,355 parcels.

GRANADA SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

NET ASSETS

The total assets of the District decreased \$71,379 from June 30, 2007. The majority of this decrease was due to a decrease in the cash reserve level due to a rise in treatment and administrative expenses. The District uses the cash reserve as a set aside for short and long term replacement of the capital assets.

OPERATING REVENUES AND EXPENSES

A summary of the District's statements of revenues, expenses and changes in net assets is presented below, along with any changes management considers significant from the previous year.

<u>OPERATING REVENUES</u>	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Sewer service charges	\$969,757	\$978,521	(\$8,764)
• Slight decrease due to decreased commercial water use.			
Permit and connection fees	\$53,976	\$349,716	(\$295,740)
• Significant decrease due to the fact that the District collected a large connection fee in 2007 for a commercial development in Princeton.			

OPERATING EXPENSES

Sewer collection and treatment	\$1,054,548	\$901,661	\$152,887
• These are the costs paid to the SAM JPA to manage and operate the treatment plant, as well as provide sewer cleaning, inspection, and maintenance services on a contract basis for the GSD sewer system. The increase from the prior year is due mainly to spending on IPS capital projects.			
Administrative expenses	\$604,233	\$583,798	\$20,435
• This item showed a slight increase in line with cost of living increases.			

NON OPERATING REVENUES

Property taxes	\$611,113	\$589,720	\$21,393
• Slight increase due to increased property tax receipts from the County of San Mateo.			
Interest income	\$239,257	\$254,587	(\$15,330)
• Interest income decreased due to decreasing interest rates for the LAIF fund, as well as decreased District cash balance.			
Other revenues	\$ 127,375	\$ 21,167	\$ 106,208
• Large increase primarily due to a refund from SAM of prior year overpayments for operating costs.			

BUDGETARY PROCESS

The District budget is presented to the Board of Directors for their comments each year at the regular May District Board Meeting, and is approved at the June meeting. The budget is basically comprised of two functions: administration, which comprises the general office work, permitting, management, legal, and financial aspects of the business; and sewer operations, which represents the District's share of the costs for the SAM wastewater treatment plant operations and maintenance, as well as the costs for maintaining the District's pipeline and pump station system. The SAM operations and maintenance budget accounts for approximately \$1,100,000 of the District's \$1,600,000 annual expenditures, or 70%. Capital asset projects are budgeted along with the operations budget, but are not considered approved until they are bid and brought before the Board for approval.

GRANADA SANITARY DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2008

CAPITAL ASSETS

The District's capital assets are comprised of its sewer lines, pump stations, force mains, and its share of the SAM Wastewater Treatment Plant (29.5%). The District currently operates and maintains 1 pump station and 34 miles of sewer pipeline. The annual depreciation calculation is based upon the estimated useful life of the assets. Actual repairs, upgrades, or replacements to capital assets are based upon review of the assets' physical conditions as well as the expected useful life.

LONG-TERM DEBT

The District's only long-term debt was issued as a Certificate of Participation (COP) for \$1,145,000 in 1996, and was refinanced as a bank loan in 2002 at a lower interest rate. The COP was used to pay for cost overruns associated with the SAM Wastewater Treatment Plant Expansion that year. More information on this item is included in Note 8 to the basic financial statements.

ECONOMIC FACTORS AFFECTING CURRENT FINANCIAL POSITION

The recent economic downturn could have some impact on the District's finances, due to decreased property tax revenues. There are no other known or expected economic factors which should affect the District's financial position in the near future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Granada Sanitary District at 650-726-7093.

GRANADA SANITARY DISTRICT**Statements of Net Assets**

June 30, 2008 and 2007 (Restated)

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,100,629	\$ 5,182,711
Due from County of San Mateo	50,199	47,743
Interest receivable	37,765	61,620
Due from other funds	10,301	-
Prepaid expenses	3,250	3,250
Total Current Assets	5,202,144	5,295,324
Other Assets:		
Capital assets, net of accumulated depreciation	5,359,743	5,112,476
Investment in Sewer Authority Mid-Coastside	6,460,759	6,717,264
Advance to Assessment District to fund bond reserve account	661,793	630,754
Advance to Assessment District to fund noncontingent assessment acquisition account	300,000	300,000
Advance to Montara Sanitary District	1,085,094	1,085,094
	<u>13,867,389</u>	<u>13,845,588</u>
	<u>\$ 19,069,533</u>	<u>\$ 19,140,912</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 169,862	\$ 18,220
Interest payable	8,564	9,294
Current portion of note payable	62,000	59,000
Due to other funds	-	7,066
Customer deposits	14,872	17,416
Total Current Liabilities	255,298	110,996
Long-Term Debt:		
Note payable, net of current portion	630,000	692,000
	<u>885,298</u>	<u>802,996</u>
Net Assets:		
Invested in capital assets, net of related debt	5,359,743	5,112,476
Unrestricted	12,824,492	13,225,440
	<u>18,184,235</u>	<u>18,337,916</u>
	<u>\$ 19,069,533</u>	<u>\$ 19,140,912</u>

See accompanying notes to basic financial statements.

GRANADA SANITARY DISTRICT**Statements of Revenues, Expenses, and Changes in Net Assets**
Years Ended June 30, 2008 and 2007 (Restated)

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Sewer service charges	\$ 969,757	\$ 978,521
Permits and connection fees	<u>53,976</u>	<u>349,716</u>
	1,023,733	1,328,237
Operating Expenses:		
Sewage collection and treatment	1,054,548	901,661
Administrative expenses	604,233	583,798
Depreciation	<u>204,887</u>	<u>201,261</u>
	<u>1,863,668</u>	<u>1,686,720</u>
Operating Loss	(839,935)	(358,483)
Non Operating Revenues (Expenses):		
Property taxes	611,113	589,720
Net change in equity of investment	(256,507)	(271,892)
Interest income	239,257	254,587
Interest expense	(34,984)	(38,218)
Other revenues	<u>127,375</u>	<u>21,167</u>
	<u>686,254</u>	<u>555,364</u>
Increase (Decrease) in Net Assets	(153,681)	196,881
Net Assets, beginning, as previously reported	18,337,916	19,130,143
Prior Period Adjustment	<u>-</u>	<u>(989,108)</u>
Net Assets, beginning, as restated	<u>18,337,916</u>	<u>18,141,035</u>
Net Assets, ending	<u>\$ 18,184,235</u>	<u>\$ 18,337,916</u>

See accompanying notes to basic financial statements.

GRANADA SANITARY DISTRICT**Statements of Cash Flows**

Years Ended June 30, 2008 and 2007 (Restated)

	2008	2007
Cash Flows from Operating Activities:		
Cash receipts from customers	\$ 1,025,242	\$ 1,332,101
Cash payments to suppliers and employees	(1,527,050)	(1,484,828)
Net Cash Used by Operating Activities	(501,808)	(152,727)
Cash Flows Provided by Non-Capital Financing Activities:		
Property taxes collected	607,148	583,550
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(452,154)	(96,725)
Payments on note payable	(59,000)	(56,000)
Interest paid	(35,714)	(38,561)
Other revenues	127,375	21,167
Net Cash Used by Capital and Related Financing Activities	(419,493)	(170,119)
Cash Flows Provided by Investing Activities:		
Interest received	232,071	215,338
Net Increase (Decrease) in Cash and Cash Equivalents	(82,082)	476,042
Cash and Cash Equivalents, beginning	5,182,711	4,706,669
Cash and Cash Equivalents, ending	\$ 5,100,629	\$ 5,182,711
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	\$ (839,935)	\$ (358,483)
Depreciation	204,887	201,261
Change in operating assets and liabilities:		
Due from County of San Mateo	1,509	3,864
Due from other funds	(10,301)	3,051
Accounts payable	151,642	(12,402)
Due to other funds	(7,066)	7,066
Customer deposits	(2,544)	2,916
Net Cash Used by Operating Activities	\$ (501,808)	\$ (152,727)
Supplemental Disclosure of Cash Flow Information:		
Non-cash investing, capital and financing activities:		
Net change in equity of investment	\$ (256,507)	\$ (271,892)

See accompanying notes to basic financial statements.

GRANADA SANITARY DISTRICT
Statements of Fiduciary Net Assets
June 30, 2008 and 2007 (Restated)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 73,634	\$ 163,297
Due from County of San Mateo	10,142	13,057
Due from other funds	-	7,066
Investments	<u>3,187,192</u>	<u>3,197,390</u>
Total Assets	<u>\$ 3,270,968</u>	<u>\$ 3,380,810</u>
LIABILITIES		
Due to other funds	\$ 10,301	\$ -
Deposits held for others	2,298,874	2,450,056
Advance from Granada Sanitary District to fund bond reserve account	661,793	630,754
Advance from Granada Sanitary District to fund noncontingent assessment acquisition account	<u>300,000</u>	<u>300,000</u>
Total Liabilities	<u>\$ 3,270,968</u>	<u>\$ 3,380,810</u>

See accompanying notes to basic financial statements.

GRANADA SANITARY DISTRICT

Notes to Basic Financial Statements

Years Ended June 30, 2008 and 2007 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies

Organization

Granada Sanitary District (District) was created in 1958 under the provisions of Section 6400 of the State of California Health and Safety Code. An elected board of directors governs the District and has the power to construct, maintain, and operate facilities for the collection, treatment, and disposal of wastewater and solid waste for the benefit of the lands and inhabitants within the San Mateo County communities of El Granada, Princeton-by-the-Sea, Miramar, and northern Half Moon Bay.

Reporting Entity

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund balance, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District's funds consist of the following:

Proprietary Fund Type - Enterprise Fund

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All assets and liabilities associated with the Enterprise Fund's activities are included in the statements of net assets.

Fiduciary Fund Type - Agency Fund

The Agency Fund (Assessment District) is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other funds and/or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. All assets and liabilities associated with the Assessment District's activities are included in the statements of fiduciary net assets.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both the Enterprise Fund and the Agency Fund are accounted for on an economic resources measurement focus using the accrual basis of accounting in accordance with generally accepted accounting principles. Under this basis of accounting, revenues are recognized when earned except property taxes which are recognized in the year they are levied and expenses are recognized when the related liability is incurred.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements and the State Controller's Minimum Audit Requirements for California Special Districts. The District has elected not to apply FASB statements and interpretations issued subsequent to November 30, 1989.

GRANADA SANITARY DISTRICT

Notes to Basic Financial Statements

Years Ended June 30, 2008 and 2007 (Restated)

Note 1 – Organization and Summary of Significant Accounting Policies, continued

Capital Assets

Capital assets for the Enterprise Fund are recorded at cost to the District for purchases or at an estimated cost when assets are contributed. The District's policy is to capitalize capital assets with a value of \$1,000 or greater. Depreciation is charged to expense for all capital assets and is computed using the straight-line method over the estimated useful lives of five to 50 years.

Risk Management

The District is a member of the California Sanitation Risk Management Authority (CSRMA) which provides general liability coverage. Participation in the CSRMA risk sharing pool provides the District general liability coverage up to \$750,000 and excess coverage up to \$10 million.

Property Tax Revenues and Sewer Service Charges

Property taxes and sewer service charges are billed and collected by the County of San Mateo through the property tax billings. Real property taxes are levied against owners of record. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Property taxes are based on assessed values of real property, which are an approximation of market value. A revaluation of all real property must be made upon sale or completion of construction. Amounts due from the County of San Mateo include both property taxes and sewer service charges.

Connection Fees

Connection fees consist of charges to homes and businesses for connecting to the District's sewer system.

Operating Revenues and Expenses

The District's operating revenues are those revenues generated from the primary operation of the District's sewer service. Operating expenses are those expenses that are essential to the primary operation of its sewer system. All other revenues and expenses are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments in mutual funds and debt instruments are carried at fair value as determined in an active market. Investments in the State of California Local Agency Investment Fund are carried at cost which approximates fair value and are included in cash and cash equivalents in the statements of net assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Note 2 – Cash and Cash Equivalents

The District's cash and cash equivalents are held in federally insured deposit accounts with financial institutions and the State of California Local Agency Investment Fund. The California Government code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation.

GRANADA SANITARY DISTRICT
Notes to Basic Financial Statements
Years Ended June 30, 2008 and 2007 (Restated)

Note 2 – Cash and Cash Equivalents, continued

The District's cash and cash equivalents consist of the following at June 30, 2008:

	<u>Carrying Amount</u>	<u>Depository Balance</u>
Amounts insured by federal deposit insurance, or collateralized with securities held by the District in its name.	\$ 100,000	\$ 100,000
Amounts fully insured or collateralized by securities held by the pledging financial institution's trust department but not in the name of the District.	174,857	472,641
Amounts held on deposit with the State of California Local Agency Investment Fund, collateralized by investments registered in the State's name.	<u>4,899,406</u>	<u>4,899,406</u>
	<u>\$ 5,174,263</u>	<u>\$ 5,472,047</u>

The District's cash and cash equivalents are presented as \$5,100,629 in the statements of net assets and \$73,634 in the statements of fiduciary net assets. The difference between the carrying amount and the depository balance represents outstanding checks and deposits in transit.

The District's cash and cash equivalents consist of the following at June 30, 2007:

	<u>Carrying Amount</u>	<u>Depository Balance</u>
Amounts insured by federal deposit insurance, or collateralized with securities held by the District in its name.	\$ 100,000	\$ 100,000
Amounts fully insured or collateralized by securities held by the pledging financial institution's trust department but not in the name of the District.	278,675	289,924
Amounts held on deposit with the State of California Local Agency Investment Fund, collateralized by investments registered in the State's name.	<u>4,967,333</u>	<u>4,967,333</u>
	<u>\$ 5,346,008</u>	<u>\$ 5,357,257</u>

The District's cash and cash equivalents are presented as \$5,182,711 in the statements of net assets and \$163,297 in the statements of fiduciary net assets. The difference between the carrying amount and the depository balance represents outstanding checks and deposits in transit.

GRANADA SANITARY DISTRICT**Notes to Basic Financial Statements**

Years Ended June 30, 2008 and 2007 (Restated)

Note 3 – Agency Fund

In 1994, Granada Sanitary District established the Assessment District to finance the expansion of the sewage treatment facility owned and maintained by the Sewer Authority Mid-Coastside. Special Assessment Limited Obligation Improvement Bonds were issued through the Assessment District to generate the funds necessary to meet the District's portion of the expansion costs. The Agency Fund is used to account for the debt service transactions of the Assessment District. The District acts as an agent with respect to the collection of special assessments from property owners and the payment of principal and interest to special assessment debt holders. The only investments reported by the District are held in the Agency Fund which consist of mutual funds and debt instruments held by a trustee.

Note 4 – Capital Assets

Changes in capital assets consist of the following for the year ended June 30, 2008:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
Equipment	\$ 22,153	\$ -	\$ -	\$ 22,153
Collection and conveyance facilities	7,315,945	452,154	-	7,768,099
Less accumulated depreciation	<u>(2,334,594)</u>	<u>(204,887)</u>	-	<u>(2,539,481)</u>
	5,003,504	247,267	-	5,250,771
Construction in progress	<u>108,972</u>	-	-	<u>108,972</u>
	<u>\$ 5,112,476</u>	<u>\$ 247,267</u>	<u>\$ -</u>	<u>\$ 5,359,743</u>

Changes in capital assets consist of the following for the year ended June 30, 2007:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Equipment	\$ 22,153	\$ -	\$ -	\$ 22,153
Collection and conveyance facilities	7,219,220	96,725	-	7,315,945
Less accumulated depreciation	<u>(2,133,333)</u>	<u>(201,261)</u>	-	<u>(2,334,594)</u>
	5,108,040	(104,536)	-	5,003,504
Construction in progress	<u>108,972</u>	-	-	<u>108,972</u>
	<u>\$ 5,217,012</u>	<u>\$ (104,536)</u>	<u>\$ -</u>	<u>\$ 5,112,476</u>

GRANADA SANITARY DISTRICT

Notes to Basic Financial Statements

Years Ended June 30, 2008 and 2007 (Restated)

Note 5 – Investment in Sewer Authority Mid-Coastside

Sewer Authority Mid-Coastside (Authority) was created by a Joint Exercise of Powers Agreement between the City of Half Moon Bay, the Granada Sanitary District, and the Montara Sanitary District. The Authority was established to construct, maintain, and operate facilities for the collection, treatment, and disposal of wastewater for the benefit of the lands and inhabitants within the member agencies' respective boundaries. Audited financial statements of the Authority are available at its office in Half Moon Bay, California.

The following is a summary of financial information of the Authority from its June 30, 2008 and 2007 audited financial statements:

	2008	2007
Total assets	\$ 22,504,401	\$ 23,672,673
Total liabilities	603,524	902,280
Net assets	\$ 21,900,877	\$ 22,770,393
Operating revenues	\$ 4,023,688	\$ 3,642,735
Operating expenses	5,064,526	4,706,094
Operating loss	(1,040,838)	(1,063,359)
Total non-operating revenues, net	171,322	141,691
Net loss	\$ (869,516)	\$ (921,668)

Each member's ownership at June 30, 2008 consists of the City of Half Moon Bay 50.5%, Granada Sanitary District 29.5%, and Montara Sanitary District 20%.

The decreases in the District's equity in the Authority for the years ended June 30, 2008 and 2007 of \$256,507 and \$271,892, respectively, are included in the statements of revenues, expenses, and changes in net assets.

Prior Period Adjustment

The June 30, 2007 beginning net assets were restated in the amount of \$3,352,901 for the Authority. As a result of the District's ownership in the Authority, an adjustment of \$989,108 was made to decrease net assets and investment in Sewer Authority Mid-Coastside at the beginning of the year.

Note 6 – Advances to Assessment District

As part of the bond issuance financed through the Assessment District, the District was required to make two separate advances to the Agency Fund. In August 1996 the District transferred \$600,000 into the Bond Reserve Fund of the Assessment District to be used as a reserve for the payment of future bond interest and principal.

The District was also required to advance \$700,000 in August of 1996 into the Noncontingent Assessment Fund of the Assessment District. The advance was used to purchase noncontingent assessments for undevelopable parcels within the District. During the year ended June 30, 2006, a repayment of \$400,000 was received from the Assessment District. No interest income has been recorded on this advance since payment of principal and interest depends on the future growth and development of other parcels within the Assessment District.

GRANADA SANITARY DISTRICT

Notes to Basic Financial Statements

Years Ended June 30, 2008 and 2007 (Restated)

Note 7 – Advance to Montara Sanitary District

Due to financial difficulties experienced by the Montara Sanitary District (MSD) in 1996, they were unable to continue funding their portion of the plant expansion of the Authority. The District advanced \$1,085,094 of the plant expansion costs on behalf of MSD. According to the Authority funding agreement, there is no repayment schedule, and reimbursement of the advance will occur only if MSD requires additional capacity in the sewage treatment facility. The future capacity needs of MSD are unknown at this time.

Note 8 – Note Payable

On August 1, 1996 the District financed a portion of the sewage treatment plant expansion with the issuance of a Certificate of Participation in the amount of \$1,145,000. The terms of the agreement include annual principal payments beginning September 1, 1997 and continuing until September 1, 2016. Interest is payable semi-annually on March 1 and September 1 of each year and the rate had varied between 4.75% and 6.75%. The District refinanced the Certificate of Participation with a note payable in August of 2002 at a fixed interest rate of 4.95%. The payment terms remained the same as the original agreement.

Principal maturities of the note payable at June 30, 2008 consist of the following:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 62,000	\$ 32,720	\$ 94,720
2010	65,000	29,576	94,576
2011	68,000	26,285	94,285
2012	72,000	22,820	94,820
2013	75,000	19,181	94,181
2014 - 2017	350,000	35,937	385,937
	<u>\$ 692,000</u>	<u>\$ 166,519</u>	<u>\$ 858,519</u>

Note 9 – Special Assessment Debt

During 1996 the District issued Special Assessment Limited Obligation Improvement Bonds in the amount of \$8,188,583 to finance the expansion of the sewage treatment plant owned and operated by the Authority. The Agency Fund is used to account for the debt service transactions. The District refinanced the bonds in September 2004 with an interest rate ranging from 2.25% to 6.125% payable semi-annually. The bond principal is paid annually with a final maturity date of September 2022. At June 30, 2008 and 2007 \$5,390,000 and \$5,630,000 are outstanding. The District is not obligated to repay this debt, but only acts as an agent for the property owners by collecting assessments, forwarding collections to special assessment debt holders, and initiating foreclosure proceedings.

GRANADA SANITARY DISTRICT
Notes to Basic Financial Statements
Years Ended June 30, 2008 and 2007 (Restated)

Note 10 – Operating Lease Commitment

The District leases office space with monthly rent of \$2,496 plus additional maintenance costs. The lease originally expired November 2007 but was extended until November 2009 with monthly rent increased to \$3,000 plus additional maintenance costs. Rent expense for the years ended June 30, 2008 and 2007 was \$44,620 and \$46,541, respectively.

Future minimum lease payments at June 30, 2008 consist of the following:

<u>Year Ending</u> <u>June 30,</u>		
2009	\$	36,000
2010		15,000
Thereafter		<u>-</u>
	\$	<u>51,000</u>

Note 11 – Employee Benefits

The District employs full and part time administrative employees, and provides paid vacation days, paid sick days, and health benefits for the full time employees. The District does not have a retirement plan for its employees.

Note 12 – Contingent Liabilities

Contingent liabilities of an indeterminable amount include normal recurring pending claims and litigation related to the District's operations. According to outside legal counsel, none of the litigation is expected to have a material effect on the financial statements. Therefore, no provision for losses has been included in these financial statements.

SUPPLEMENTAL INFORMATION

DRAFT